

Message Text

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PAGE 01 EC BRU 02650 01 OF 02 161839Z

54

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 ERDA-05 NRC-05 AGR-05

SS-15 NSC-05 /085 W

----- 034949

R 161704Z MAR 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 765

INFO ALL EC CAPITALS 1845

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E.O. 11652: N/A

TAGS: EFIN, PFOR, EEC

SUBJECT: EC FINANCE MINISTERS COUNCIL MARCH 15: HIGHLIGHTS

1. SUMMARY: AT THEIR MARCH 15 COUNCIL MEETING IN BRUSSELS THE EC FINANCE MINISTERS: GAVE FINAL APPROVAL TO A \$1.3 BILLION EURO CURRENCY BORROWING, \$1 BILLION OF WHICH WILL GO TO ITALY WITH THE REMAINDER GOING TO IRELAND; AGREED TO A CEILING OF 800 MILLION UNITS OF ACCOUNT FOR THE NEXT FOUR YEARS FOR LOANS TO NON-EC MEMBER STATES FROM THE EUROPEAN INVESTMENT BANK (EIB); FAILED TO MAKE PROGRESS ON A COMMISSION PROPOSAL TO BEGIN USING THE NEW EUROPEAN UNIT OF ACCOUNT (A MARKET BASKET OF COMMUNITY CURRENCIES) IN THE COMMUNITY'S BUDGET; REVIEWED THE ECONOMIC SITUATION OF THE COMMUNITY; HELD AN EXCHANGE OF VIEWS ON EURATOM LOANS TO ASSIST NUCLEAR POWER PLANT CONSTRUCTION; AND DISCUSSED THE FINANCIAL ASPECTS OF THE COMMUNITY'S AGRICULTURE DECISION-MAKING. END SUMMARY.

2. AFTERMATH OF THE FRENCH DECISION TO FLOAT: DURING THEIR COUNCIL SESSION AND THEIR PRIVATE LUNCHEON THE MINISTERS REPORTEDLY DEVOTED LITTLE TIME TO REVIEWING THE EVENTS OF SUNDAY NIGHT WHICH LED TO THE FRENCH DECISION TO PULL OUT OF THE SNAKE. HOWEVER, IN SPEAKING
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PAGE 02 EC BRU 02650 01 OF 02 161839Z

WITH JOURNALISTS DURING AND AFTER THE COUNCIL MEETING, VARIOUS

FINANCE MINISTERS WERE SUBJECTED TO EXTENSIVE QUESTIONING. OF INTEREST WAS A STATEMENT GIVEN BY FRENCH FOREIGN MINISTER FOURCADE, ON A NOT-FOR-ATTRIBUTION BASIS, IN WHICH HE BLAMED THE FRANC'S DIFFICULTIES, AT LEAST IN PART, ON THE FAILURE OF THE BRITISH GOVERNMENT TO ADEQUATELY SUPPORT THE POUND. DURING THE COUNCIL SESSION, HOWEVER, FOURCADE, ACCORDING TO UK CHANCELLOR HEALEY AND OTHERS PRESENT, WENT OUT OF HIS WAY TO TELL THE BRITISH THAT THEY HAD BEEN IN "NO WAY RESPONSIBLE" FOR THE DIFFICULTIES OF THE FRANC.

3. HEALEY, SUPPORTED BY DUTCH FINANCE MINISTER DUISENBERG AND FRG FINANCE MINISTER APEL, SAID THERE WAS GENERAL AGREEMENT AMONG THE MINISTERS THAT THE FRANCH FRANC HAD RETURNED TO THE SNAKE AT A PARITY WHICH WAS TOO HIGH TO BE SUPPORTED INDEFINITELY.

4. COMMENTING ON THE DIFFICULTIES AFFECTING THE POUND, HEALEY SAID THE BANK OF ENGLAND HAD INTERVENED IN THE MARKET TO PREVENT "ERRATIC" FLUCTUATIONS AND THAT APPROXIMATELY 750 MILLION POUNDS HAD BEEN EXPENDED IN THIS PROCESS. HEALEY OPINED THAT THE POUND'S LOSS OF VALUE WAS DUE TO BRITAIN'S SIGNIFICANTLY HIGHER RATE OF INFLATION THAN MOST OF ITS EC PARTNERS. COMMENTING ON THE FRENCH SITUATION, EHALEY NOTED THAT THE RATE OF INFLATION IN FRANCE WAS TWO TIMES THAT IN THE FRG.

5. FRG FINANCE MINISTER APEL SAID THAT HE LOOKED FORWARD TO THE RETURN OF THE FRANCH FRANC TO THE NSAKE "AT THE EARLIEST POSSIBLE OPPORTUNITY." APEL FURTHER SAID THAT THE SWISS APPLICATION TO JOIN THE SNAKE COULD NOT BE FURTHER CONSIDERED UNTIL AFTER THE RETURN OF THE FRANCH FRANC.

6. FRENCH FINANCE MINISTER FOURCADE TOLD HIS COLLEAGUES THAT HE INTENDED TO MAKE PROPOSALS REGARDING THE OPERATIONS OF THE SNAKE ALTHOUGH WE UNDERSTAND HE PROVIDED NEITHER FURTHER DETAIL OF WHAT HE HAD IN MIND NOR GAVE ANY INDICATION AS TO WHEN HE WOULD BRING THESE PROPOSALS FORTH. LUXEMBOURG PERMANENT REPRESENTATIVE AND COREPER CHAIRMAN DONDELINGER TOLD US THAT IT WAS HIS UNDERSTANDING THAT FOURCADE'S PROPOSALS WOULD RELATE IN PART TO THE NEED FOR IMPROVED COORDINATION MECHANISMS AMONG CENTRAL BANKS.

7. ECONOMIC SITUATION IN THE COMMUNITY: THE MINISTERS BRIEFLY REVIEWED THE COMMISSION-PROPOSED ECONOMIC POLICY GUIDELINES LIMITED OFFICIAL USE

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PAGE 03 EC BRU 02650 01 OF 02 161839Z

FOR 1976 (SEE EC A-119) AS WELL AS AN ASSESSMENT OF THE DEGREE OF CONVERGENCE OF ECONOMIC POLICIES IN 1975. LUXEMBOURG FINANCE MINISTER VOUEL NOTED AND PRAISED THE INCREASED COOPERATION AMONG THE MEMBER STATES WITH REGARD TO COMBATING UNEMPLOYMENT. THE MINISTERS AGREED TO DEVOTE THEIR APRIL 26 MEETING TO AN INFORMAL DISCUSSION OF THE PROBLEMS OF STRUCTURAL UNEMPLOYMENT. THIS MEETING WILL BOTH FOLLOW UP DISCUSSIONS OF UNEMPLOYMENT BY THE HEADS OF GOVERNMENT AT THE EUROPEAN COUNCIL ON APRIL 1/2 AND

PREPARE FOR THE TRIPARTITE CONFERENCE (REPRESENTATIVES OF GOVERNMENT, LABOR AND INDUSTRY) WHICH IS TENTATIVELY SCHEDULED FOR LATE JUNE.

8. EUROPEAN INVESTMENT BANK: THE EC FINANCE MINISTERS, MEETING AS THE GOVERNING BOARD OF THE EUROPEAN INVESTMENT BANK, AGREED TO INCREASE THE BANK'S CAPACITY TO LOAN TO NON-EC MEMBER STATES. THE BANK MAY NOW MAKE EXTERNAL LOAN COMMITMENTS UP TO A MAXIMUM OF 800 MILLION UNITS OF ACCOUNT. THE MINISTERS FURTHER AGREED NOT TO CONSIDER RAISING THE CAPITAL OF THE BANK, BARRING UNUSUAL CIRCUMSTANCES, UNTIL 1979-80. THIS MAXIMUM IN EXTERNAL LENDING CAPACITY ABROGATES THE PREVIOUS GUIDELINE WHICH REQUIRED THAT LOANS TO THIRD COUNTRIES SHOULD NOT EXCEED 20 PERCENT OF TOTAL EIB LOANS EACH YEAR. THE NEW MAXIMUM IS DESIGNED TO ENABLE THE COMMUNITY TO MEET OBLIGATIONS TO GREECE, TURKEY, YUGOSLAVIA AND PORTUGAL. UK CHANCELLOR HEALEY SAID THE 800 MILLION UNIT OF ACCOUNT CEILING WOULD ALSO BE SUFFICIENT TO PROVIDE LOANS TO ISRAEL AND TO THE MASHRAQ. COUNCIL SOURCES DISPUTE THIS, HOWEVER, SAYING THE NEW LIMIT WILL NOT STRETCH TO COVER ISRAEL AND THE MASHRAQ AND THAT IT WILL HAVE TO BE RAISED TO ABOUT 950 MILLION UA--THE LEVEL ORIGINALLY PROPOSED BY THE COMMISSION.

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PAGE 01 EC BRU 02650 02 OF 02 161848Z

54

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SS-15 NSC-05 /085 W

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R 161704Z MAR 76

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LIMITED OFFICIAL USE SECTION 02 OF 02 EC BRUSSELS 02650

9. EXPANDED USE OF THE NEW UNIT OF ACCOUNT: THE MINISTERS VERY BRIEFLY DISCUSSED THE COMMISSION'S INFORMAL PROPOSAL REGARDING EXPANDED USE OF THE NEW "MARKET BASKET" UNIT OF ACCOUNT IN THE EC'S BUDGET. THE COMMISSION WAS NOT PREPARED TO MAKE A FORMAL PROPOSAL AT THIS TIME. IN ADDITION, FIRM BRITISH OPPOSITION MAY BLOCK ANY PROGRESS. SPEAKING TO THE PRESS DURING THE COUNCIL SESSION, UNK CHANCELLOR HEALEY SAID THE COMMISSION HAD ESTIMATED THAT USING THE NEW UNIT OF ACCOUNT IN BUDGET COMPUTATIONS WOULD INCREASE THE UK'S EFFECTIVE CONTRIBUTION BY SOME 150 MILLION POUNDS IN 1976 AND 1977. HEALEY INDICATED FIRM OPPOSITION TO EARLY USE OF THE NEW UNIT OF ACCOUNT FOR THE EC'S BUDGET, SAYING THAT DURING THE ACCESSION NEGOTIATIONS THE UK HAD OBTAINED COMMITMENTS WHICH WOULD EFFECTIVELY PRECLUDE ANY CHANGES IN THIS AREA UNTIL 1978 AT THE EARLIEST.

10. COMMUNITY LOANS APPROVED: THE MINISTERS GAVE FINAL APPROVAL TO LOANS AMOUNTING TO A TOTAL OF \$1.3 BILLION UNDER THE EC'S COMMON BORROWING FACILITY. THE FUNDS ARE TO BE OBTAINED ON THE EUROMARKET FROM CONSORTIA OF SOME 40 BANKS. FINAL ARRANGEMENTS AND INTEREST RATES WILL BE FIXED ON MARCH 22 FOR:

(A) A \$300 MILLION EURO DOLLAR BORROWING FOR SIX YEARS;
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PAGE 02 EC BRU 02650 02 OF 02 161848Z

(B) A DM 500 MILLION BORROWING FOR SEVEN YEARS
(C) A \$300 MILLION FIVE-YEAR BORROWING AT VARIABLE INTEREST RATES.
THE REMAINDER OF THE \$1.3 BILLION TOTAL WILL BE OBTAINED BY A PRIVATE PLACEMENT, TO BE MADE IN APRIL, OF COMMUNITY-GUARANTEED DOLLAR NOTES WITH TERMS OF UP TO FOUR YEARS.

11. THE FUNDS RECEIVED UNDER THIS OPERATION WILL BE DIVIDED SO AS TO EQUALIZE EFFECTIVE INTEREST RATES AND CONDITIONS BETWEEN THE TWO RECIPIENT MEMBER STATES. \$300 MILLION WILL BE LOANED TO IRELAND UNDER ECONOMIC POLICY CONDITIONS FIXED BY THE COUNCIL ON FEBRUARY 17, 1975. \$1 BILLION WILL BE LOANED TO ITALY UNDER ECONOMIC POLICY CONDITIONS APPROVED BY THE COUNCIL, WHICH ARE SIMILAR TO THOSE REPORTED IN EC BRUSSELS 2319.

12. EC COMMISSION VICE PRESIDENT HAFERKAMP PRAISED THE COUNCIL'S DECISION, SAYING THAT IT "CONSTITUTES AN IMPORTANT PRACTICAL EXPRESSION OF THE CONCEPT OF COMMUNITY SOLIDARITY." HAFERKAMP NOTED THE ACCEPTANCE BY THE TWO MEMBER STATES OF THE ECONOMIC AND FINANCIAL CONDITIONS LAID DOWN FOR THE LOANS AND THEIR DESIRE FOR THE IMPROVEMENT AND STABILIZATION OF THEIR ECONOMIC AND FINANCIAL POSITIONS.

13. EURATOM LOANS: THE MINISTERS MADE LITTLE PROGRESS ON THE QUESTION OF LOANS FOR THE FINANCING OF NUCLEAR POWER PLANT CONSTRUCTION WITHIN THE COMMUNITY. ON THE BASIS OF THE COUNCIL DISCUSSION, COREPER IS TO ATTEMPT TO DEAL WITH SOME OF THE OUTSTANDING TECHNICAL DETAILS, ESPECIALLY MEMBER STATE GUARANTEES.

THE DUTCH CONTINUE TO INSIST ON A MEMBER STATE GUARANTEE FOR EACH LOAN. THIS DEMAND WAS SUPPORTED BY IRELAND AND THE FRG. IN ADDITION, THE DOSSIER IS TO BE REFERRED TO THE COUNCIL OF ENERGY MINISTERS WHICH WILL MEET IN BRUSSELS ON MARCH 25 FOR AN INDICATION OF HOW THESE LOANS RELATE TO THE COMMUNITY'S LONG-TERM ENERGY PRODUCTION OBJECTIVES. FOLLOWING CONSIDERATION BY THE ENERGY MINISTERS THE MATTER WILL AGAIN BE DISCUSSED BY THE FINANCE MINISTERS , PROBABLY AT THEIR MAY 17 MEETING.

14. FINANCIAL ASPECTS OF EC AGRICULTURAL DECISION-MAKING: ACCORDING TO COUNCIL AND PERM. DEL. SOURCES THE MINISTERS BRIEFLY DISCUSSED THE NEED TO INVOLVE THEMSELVES MORE CLOSELY IN THE FINANCIAL ASPECTS OF THE COMMUNITY'S AGRICULTURE DECISION-MAKING AND IN LIMITED OFFICIAL USE

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PAGE 03 EC BRU 02650 02 OF 02 161848Z

PARTICULAR, IN THE ANNUAL PRICE FIXING DISCUSSIONS. UK CHANCELLOR HEALEY SAID THAT THE RECENT COMPROMISE ACHIEVED BY THE AGRICULTURE MINISTERS WAS "ABSURD AND RIDICULOUS BUT THE ONLY THING POSSIBLE UNDER THE CIRCUMSTANCES." HE FURTHER DECLARED THAT "AGRICULTURE WAS TOO IMPORTANT TO BE LEFT TO AGRICULTURE MINISTERS" AND CLAIMED THAT THERE WAS UNANIMOUS AGREEMENT THAT THE FINANCE MINISTERS, WHOM HE DESCRIBED AS REPRESENTING INTERESTS OF THE CONSUMER, SHOULD BECOME INVOLVED IN AGRICULTURAL PRICE FIXING DISCUSSIONS. OTHER SOURCES WERE NOT QUITE SO EMPHATIC AND NOTED THAT THE FINANCE MINISTERS HAD PREVIOUSLY AND UNSUCCESSFULLY TRIED TO INSERT THEMSELVES IN DISCUSSION OF THE COMMUNITY'S EXTERNAL RELATIONS AT LEAST INsofar AS THEY CONCERNED AID TO THEIR COUNTRIES. IT REMAINS TO BE SEEN HOW SUCCESSFUL THE FINANCE MINISTERS WILL BE SHOULD THEY MOUNT A STRENUOUS EFFORT TO PARTICIPATE IN THE ANNUAL PRICE FIXING "BATTLE ROYAL." HINTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CURRENCY LOANS, FOREIGN MINISTERS MEETINGS, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ECBRU02650
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760099-0206
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760358/aaaabyii.tel
Line Count: 258
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 31 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 MAR 2004 by MartinML>; APPROVED <01 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC FINANCE MINISTERS COUNCIL MARCH 15: HIGHLIGHTS
TAGS: EFIN, PFOR, EEC, EIB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006